



## How to Develop THE PLAN

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In developing a Business Plan to attract investment capital, you will be more successful when it is based upon a realistic strategic plan reflecting how the senior management will run the business, and manage the opportunities and risks. While a typical Business Plan is a sales document, the Strategic Plan is a confidential internal frank framework for decision-making.

The goal is to develop issue-oriented strategies and effective actions. This outlines our business planning philosophies and the strategic planning process typically used in working with management teams.

Every business situation is unique. This process is modified to meet the needs of specific businesses and management realities. For example, while an emerging high tech company is approached differently than a large industrial operation in search of refocus, any strategic planning process involves these elements, whether or not systematically articulated.

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## The Essence of Strategic Planning

The chief planner is the Chief Executive. Much of the analytical work on planning can be delegated by the CEO but in the end, the Chief Executive must decide upon the strategic directions for the enterprise. And obtain Board approval.

We plan when we allocate scarce resources, both financial and human—not when we publish strategic planning reports and memo's. This is when a company is truly shaping its future.

The essence of strategic planning is to link our capabilities (resources) with the market. The linkages involve products and services through a range of channels of distribution and marketing/pricing strategies. The external and internal realities are dynamic. Leading companies are able to anticipate these changes and act proactively. It is not always possible or even preferable to be a leader, so it can be valid to organize to be a "fast follower" in a specific area.

The strategic planning process is driven by a business assessment of the company—not as we are today but rather where we will be if the trends continue and we continue to do the same things as we are doing now.

Why should we plan? It is the complexity and rapidity of change which necessitates the strategic planning. We go through the process in order to systematically explore the changes in the business which are constantly taking place, and the various ways to

respond to these changes. We want to shape our future proactively rather than reactively. We want to anticipate and resolve the threats to our profitability, and take advantage of the opportunities for profit. We plan in order to ensure that there is a clear focus throughout the organization on those goals and areas which have been selected for management attention.

Within the broad strategic direction given by the CEO, the planning process can provide the opportunity for management to present their assessment of their area of responsibility. This is an iterative process which may result in a modification to either the general goals provided the Chief Executive or the expectations of individual managers, or both. The result should be a realistically obtainable strategic plan with the appropriate amount of "stretch". In this process, members of management should have a more clear view of how their own actions impact other aspects of the business and the results of the whole; the opportunity to shape some of the actions; and the basis for "buying in". This can be done in other ways, but the planning process often the most effective.

Strategic planning establishes a framework for decision-making. The strategic analysis is based upon critical assumptions. They will not always be right. When a key assumption turns out differently, then the business can more quickly and positively respond to the new reality.

The long range plan should be a period sufficiently long to enable the company to significantly change in response to threats and opportunities. The time frame for strategic planning depends upon the specific industry. The long range plan is more qualitative than quantitative.

The annual plan describes the specific details (financial and operating) arising from the strategic directions which have been set. The budget is included in the annual plan, being the expected results of the way in which management plans to run the business. Without that context for the annual budget, it is more difficult to explain, and defend.

### **The Steps in the Process** (see diagram following)

The following are the typical steps when we work with a CEO and the senior management team to achieve results. This process usually begins at a management retreat, off-site, where the participants are encouraged to look beyond the immediacies of day-to-day business—to focus upon the future in a rigorous and creative way, to think “outside the box” before coming back into the box to make it a reality.

### **Statement of Business Mission**

This is a key statement and is provided by the Chief Executive. It defines what business we are in. It may appear to be a simple task, but usually is not. And it is fundamental. We come back to this, as it often changes as a result of the process.

## **Assessment of the Current Situation**

How have we done historically? Where do we make money—by line of product, by channel of distribution, and by location? In terms of changes in profitability—what is due to price, volume and mix?

## **Market Segmentation**

As we are competing in a number of defined markets, we segment the market into useful groupings for each business. Who are we appealing to? What are their needs? Who are the competitors and what are they doing? The competitive assessment is based upon this market segmentation.

## **Trends**

Often in open discussion, it is often revealed that individual members of the management team have different assumptions about the trends, and the implications of the trends upon the business. The external trends include: the economy, exchange rates, business conditions, markets, channels of distribution, pricing, raw material supply, geographic regions, technology, consumers, public policy and the competition. The internal trends include: human resources, management competence, finance, and technology. It is important to distinguish between facts and assumptions. Often we don't know the facts but we must develop operating assumptions in order to proceed—building blocks to the strategic analysis.

## **Competitive Assessment**

This is not based upon where we are now, but rather where we expect to be if we do not change (base case) at the end of the planning period (say, 5 years) if the trends (assumptions) which we have identified do, in fact, continue. The components:

- ◆ Competitive Strengths (or Advantages)
- ◆ Competitive Weaknesses (or Disadvantages)
- ◆ Threats to Profitability
- ◆ Opportunities for Profit

## **Key Issues**

From this process many issues (phrased as "how to...") are captured during the sessions, without judgment. When the competitive assessment is completed, it is then the task to achieve consensus on what are the most important, narrowed to a few key issues (4 to 8) with which the company can deal. These key issues are the basis of "issue-oriented" planning. Once the management team have come to a consensus on the key issues, the task for the group is to decide how to organize to get the information to make the decisions on how to resolve the issues.

## **Base Case**

The base case is what results we can expect if we continue doing what we are now doing, in light of the trends we have identified. That is to say, no significant capital expenditures or initiatives. When we later come to the financial justification of capital expenditures, it is the "gap" between the base case and the expected results of the particular capital expenditure which determines the incremental profitability.

## **Alternative Courses of Action**

It takes time to evaluate each key issue, and only begins at the initial retreat. How do we organize ourselves to make the recommendations? What information do we need? This process includes considering the competitive reactions to our actions.

## **Statement of Goals and Strategies**

### **Recommended Action Plans**

### **Resources**

What human and financial resources do we need to carry out these actions?

### **Expected Results**

### **Tasks, Responsibilities and Timing**

To ensure that it is clear who is doing what and by when; and how one task fits with the whole programme. The person responsible must be aware that missing a deadline will have an impact on his/her colleague's ability to complete their tasks. Often business plans are well-worded documents that are not linked to effective actions, and results. It is essential that the work result in action plans which have the potential to achieve the desired results.

## **Statement of Plan and Actions**

Typically, the output is prepared for the CEO for his Board of Directors to seek agreement with the strategic directions and approval of specific allocation of capital.

### Summary of Steps in the Strategic Planning Process

